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Report of the Subcommittee on Food and Fiber Reserves
for National Security to the
National Agricultural Advisory Commission
October 7, 1964

Fundamental National Policy Consideration

Establishment of national security reserves -- foods, feeds, and fibers -- would be another step toward progress and peace, fundamental in the United States policy. The Free World cannot achieve full defensive strength against external attack or against internal provocations from hunger without full rationalization of potential uses of existing farm commodities supplies and tremendous agricultural production capacities. Ever changing influences in the world must be considered when spelling out the kinds, quantities, and locations of reserves that this Nation should maintain for any eventuality.

Farm Policy Implications

Security needs warrant careful consideration when dealing with agricultural policy, along with their basic prominence in national policy determinations. Thorough attention must be given to food and fiber requirements for people and feed for livestock.

Security reserves are interwoven with the basic problems of adequate farm income, commodity price stabilization, international food problems and consumer welfare at home.

Population patterns, transportation facilities, storage facilities, seasonal factors, and communications are of major consequence in the establishment of and strategic operation of any security reserves program. Plans must take into account the kinds of foods and their stages of preparation.

The Commodity Credit Corporation would manage such reserves and its charter could be modified to permit establishment and effective management of such security reserves. Under existing laws CCC is restricted to price support operations with stipulations that supply accumulations must be liquidated under specified conditions. It is apparent that added legislative action would be necessary for required authorization and for establishment of desirable interrelationships between existing programs and effective security reserves.

Security and Supplies on Hand

In several lines of farm production accumulated supplies are very large -- much above foreseeable needs, Table 1. Feed grains, wheat, and cotton all are at burdensome levels.

TABLE 1

Preliminary unofficial estimates
for discussion purposes only

TENTATIVE FORECASTS OF CARRYOVERS OF VARIOUS COMMODITIES, END OF
1964-65 MARKETING YEAR, WITH COMPARISONS

Commodity	Unit	Carryover		Needed
		End of Marketing Year		Reserve
		1963-64 1/	1964-65 2/	Levels
		Millions	Millions	Millions
Wheat	Bushels	900	870	630.0
Rice, rough	Cwt.	7.5	15	9.0
Feed Grains	Tons	70	62	45.0
Cotton, all	Bales	12.4	12.5	6.2
Soybeans	Bushels	40	25	100.0
Edible vegetable oils	Lbs.	1,200	1,000	800.0
Beans, dry	Lbs.	220	150	150.0
Lard	Lbs.	80	65	100.0
Dairy products				
Nonfat dry milk	Lbs.	507	150	530.0
Butter (incl. butteroil)	Lbs.	276	110	100.0
Cheese	Lbs.	302	280	380.0
Flaxseed	Bushels	13	11	8.0

1/ Preliminary and partially estimated.

2/ Tentative forecasts based on information available in mid-July 1964 and assuming continuation of present programs. Data are for end of marketing years.

These accumulations have occurred in spite of supply adjustment and income-bolstering programs. For the most part, these programs represent a series of compromises involved in the development of farm legislation. Numerous improvements have been made in several commodity programs. Taken together, they do not provide an adequate nor a fully rational pattern to cope with the thrusts of advancing production technologies, shifts in domestic demand, and the changing structure of world trade.

As further consideration is given to national farm policies, the potentials and benefits of security reserves of farm products should be in the foreground.

Existing legislative authority is inadequate for the establishment and management of food, fiber, and feed reserves in these United States.

Prudent administration of existing laws has prompted the Secretary to spell out approximate quantities -- "needed reserve levels" -- for several commodities and groups of commodities. The Secretary is to be commended for the many ways in which these determinations have led to broader public understanding of the great benefits accruing from agricultural abundance.

These estimates have been developed primarily by the USDA staff and represent about the maximum amounts justifiable for "strategic stockpiles". The expression, "strategic stockpiles", has through the years taken on a variety of meanings and probably should be pushed aside.

The Subcommittee can neither confirm nor dispute the quantity approximations for needed reserve levels. We have not been in a position to appraise their adequacy statistically. Neither could we weigh them with a perspective that would reflect the maze of complexities confronting analysts of problems of preparedness, security, and reinvigoration of human and economic activities with different types of international conflicts.

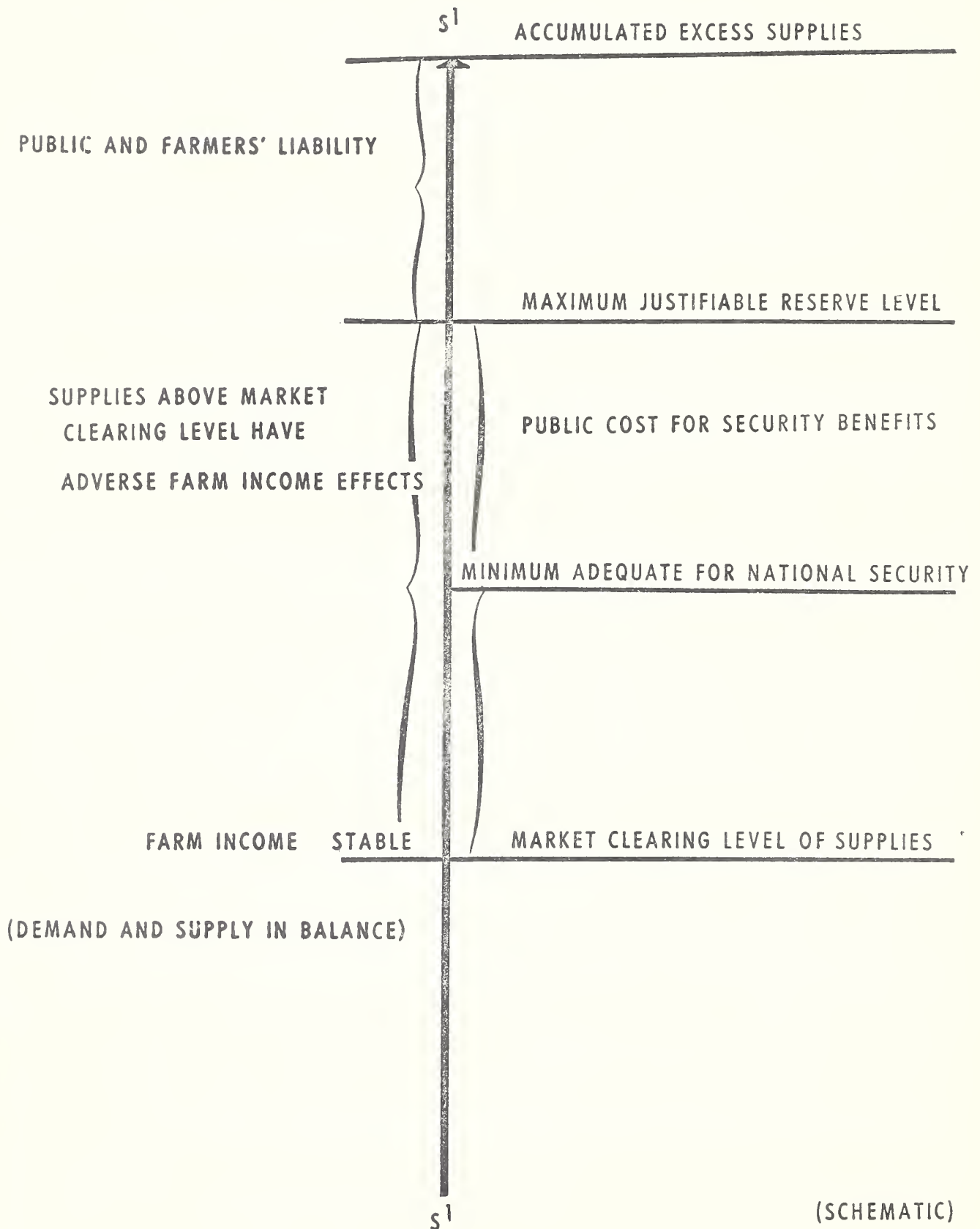
The Department's estimates of needed reserve levels have served most useful purposes both in governmental planning and in providing the public and the Congress with added appreciation of the deep-seated sources of national strength emanating from agriculture.

We believe the time is right for re-examination and further justification of security reserves -- food, feed and fiber -- as an integral part of national policy.

Supplies and Security Relationships

Interrelationships between farm product supplies, prices and incomes, and levels of security reserves are shown schematically, Chart I.

COMMODITY SUPPLIES - SECURITY RELATIONSHIPS



A logical synthesis is readily recognizable.

Market prices reflecting equilibrium positions and market oftakes (for a commodity and closely related groups of commodities) with supplies in balance provide some reserves strength and keep farm incomes in step with the general level of economic activity. Such equilibrium positions include "pipe-line" supplies needed for an orderly flow of trade. Normally, they include some safeguards against weather risks, transportation disruptions, and the like. Certainly, these stocks have an important bearing upon our reserves at any one time. Their size for particular commodities often reflects the quantities held by CCC and the conditions and prices at which they are available to the market. Insofar as practical, private trade channels should be encouraged to carry their own inventories instead of becoming increasingly dependent upon Government-held stocks.

Two Levels of Reserves Proposed

It is the view of the Subcommittee that two levels of reserve supplies reflecting national security goals should be established. One would be a minimum adequate level which would provide sufficient supplies to cover critical and urgent food and fiber needs for sustained offshore hostilities and for the alleviation of major natural disasters. Such minimum levels should meet strategic industrial requirements for specified oils, wool, and cotton. This would be in addition to the needs of feed for livestock and food for general consumption.

The maximum justifiable levels of reserves should be of a magnitude to provide full protection for defense under any eventuality, meet natural disaster problems, provide a cushion against large increases in domestic prices, permit the use of farm commodities to supplement diets domestically, permit the use of food and fibers abroad to alleviate acute hunger situations, and enlarge future markets.

Who Should Bear the Costs?

Producers, marketing firms, processors, and distributors snare the costs of reserves at levels at which supply clearance is a regular function of the market within an intermediate period of time.

If larger reserves are to become established policy, then determinations should be made as to who would pay the costs of their development, maintenance, and management. Agriculture and rural people should participate in the payment of these costs, roughly in keeping with their proportionate make-up in the population and their participation in general economic activity.

An added direct cost should be considered as chargeable to Agriculture to the extent to which insurance features against natural hazards to farm production might be built into a security reserves program.

Between the market clearing level of supplies and the maximum justifiable reserve level the costs involved should be public costs.

The consumer's stake in each of the levels of reserve supplies is an obvious one. Runaway food prices represent one of the most difficult internal problems in times of national emergencies. Rationing, price controls, and control of exports and imports are the tools used in the past to deal with these acute inflationary stresses in the economy.

The Agricultural History Branch, ERS, had this to say in an unpublished report concerning wartime authority for price control and rationing of agricultural commodities. 1/

"The control of exports and imports of food aroused less controversy during World War II and the Korean War than did rationing or price control. During World War II, there was a limited amount of adverse comment on shipments of relatively scarce foods to allies overseas, even though most publicity stressed the opposite point of view. The control of exports was through the priorities and allocations system. During the Korean War, the Department made export allocations of and recommended export controls on cotton, sugar, inedible molasses, naval stores, wool and certain oils."

Enabling legislation and a wide range of administrative authorities are essential for rational distribution and reasonable prices under national emergency conditions. But, the only real safeguard is to have adequate supplies of food, fiber, and feed on hand with provisions outlined in advance for their release and utilization in an orderly manner.

The differentiation in costs sharing is clear-cut except as the accumulations accrue because of farmer unwillingness to participate in reasonable and effective supply adjustment programs. Consideration should be given to budget formulae in which a commodity, or group of closely related commodities, would have costs to the government charged against their program on a differential basis. Variables should include whether the program was voluntary or mandatory, the extent of participation, and past program experiences. As supplies accumulate above the maximum justifiable reserve level, then costs formulae should reflect the heavy burdens of public costs stemming from the particular commodity or related commodities in relation to established criteria of needs.

1/ Wartime Authority for Price Control and rationing of Agriculture Commodities, Unpublished, Agricultural History Branch, ERS, USDA, May 15, 1963.

The adverse farm income effects of the existence of such supplies above the market clearing level can be offset, for the most part, if these supplies are properly sealed off from the market with well-established criteria for release under well-defined emergency conditions and with practical provisions for rotation of reserve supplies in keeping with quality maintenance requirements.

Supplies Above Justifiable Reserves

Accumulated excess supplies above the maximum justifiable reserve level are labelled as a public and farmers' liability. These supplies have values as reserves. And, they have values as tools for implementation of our policies for peace around the world. But, the Subcommittee has reasoned that the costs of their maintenance cannot be justified in the name of national security only.

We are dealing off the top of the deck of our surplus stocks, when such supplies are used in a positive way for assistance in free nations. Such actions liquidate a public liability and serve a useful purpose in foreign relations. Circumstances dictate whether sales should be on credit, for foreign currency, for dollars, or by the making of outright grants.

It is almost an impossibility to develop costs-benefit ratios for such humanitarian activities. Yet, the benefits which accrue do offset, in part, the public costs arising from the persistent upward push in supplies of several farm products. Use of private trade channels, with our government in a supporting role, may often lead to added market opportunities in the future.

It is from this area of accumulated supplies that the national interest can be served by negotiated sales of commodities to Communist-dominated countries. Both the economic and psychological effects of such sales, conceived in keeping with the international situation at a given time, can convert a liability to an asset. This would be good business measured by either government or private industry standards.

So far, such sales have been approached through our government's support of private traders. This may not provide the best bargaining mechanism in all cases. Many governments play a much more active rôle than the United States in special trade negotiations; for example, Canada with its Wheat Board. It is logical that management guides for operations of a security reserves program should include provision for greater participation by our government in sales of surplus stocks.

World Food Bank Proposals

Various concepts for the establishment and operation of a World Food Bank have been proposed from time to time with storage, in part or wholly, outside the United States. The Subcommittee has not explored these ideas thoroughly.

If we entered into an international food bank undertaking and our participation came mainly from accumulations above maximum justifiable security reserve levels, the possibilities for real gains would be magnified. Coupled with effective supply management here at home, it would appear that U. S. participation could add another tool in our kit for dealing with both domestic and foreign supply and offtake problems. Complexities of existing trade relationships and instabilities of world commodity prices -- for example, sugar -- would indicate a "go slow" attitude towards World Food Bank ideas would be a prudent one.

The pros and cons of dependence upon reserves stored offshore are multiple. The Subcommittee did, however, review the projected plans for the establishment of food reserves facilities at Mortier Bay, Newfoundland. Its proximity to the St. Lawrence Seaway and the Great Circle shipping routes, plus its large fjord-like harbor and relatively ice-free and fog-free conditions, suggests careful consideration of such a location if offshore storage is contemplated in the future.

Security Reserves, Assuming Extra-territorial Hostilities

The Subcommittee recommends a task group study of national security goals centered upon the establishment of food, feed, and fiber reserves at a minimum adequate level and at a maximum justifiable level under assumed conditions of extra-territorial hostilities, such as the Korean Conflict.

Such a study should include the following specific considerations:

1. The location or special distribution of reserves is not a critical factor inasmuch as nearly normal transportation and storage conditions would be expected to prevail. Storage of these reserves would be both public and private.
2. The management and operation of storage facilities near or within production areas appear to be consistent with the expected needs for reserves. Relocation of facilities would not be required.
3. Government-held reserve stocks would be essential to meet needs, especially for food and feed grains, certain oils, wool, and other fibers.
4. The administrative management of the publicly-held reserves would be accommodated under the commodity stabilization programs of the U. S. Department of Agriculture.
5. Cost-benefit approximations.
6. Specific proposals for allocations of costs relative to benefits accruing to general welfare, defense, and agriculture.

Security Reserves Program--Massive Nuclear Attack

Materials supplied from the Office of Emergency Planning, National Resources Evaluation Center, and by the staff of USDA have been studied carefully.

It is recognized that the disruptive potentials of such an attack place approaches to rationalized planning for such an eventuality on an entirely different plane. Yet, it must be done as adequately as possible within the bounds of human comprehension. Survival, rapid recovery, and revitalized activities are the basic considerations.

Here, again the Subcommittee recommends a continuation of USDA studies with a task group considering the following, among other features:

1. Relatively high losses of population can be anticipated in expected target areas, especially in the Northeastern and Middle Atlantic sections of this country.
2. Rather complete disruption of commercial transportation -- complete in restricted areas.
3. Substantial losses of food supplies in major metropolitan centers. It is unknown whether food supply losses will be greater or less than proportionate to human population losses.
4. Present storage capacity of stocks of food in most areas is less than three weeks supply at the wholesale level of distribution. Areas of sparse population and/or those limited in wholesaling and processing facilities have even lower reserve levels.
5. Storage of food and fibers in direct use form being readily accessible to survivors.
6. Storage of feed grains to revitalize dairying for local milk supplies.
7. Distribution of essential farm input items such as petroleum fuels, spare parts, tires, etc., would be seriously affected. For example, less than six percent of annual farm usage of gasoline is stored on farms. Reserves would be essential to restore food production promptly.
8. Release procedures detailed in advance.
9. Continued joint endeavors with Civil Defense, state and local governments, and other branches of the Federal Government.
10. Costs approximations, including both government-owned and private facilities.

Management Guides

As noted above, the Commodity Credit Corporation could manage a security reserves program in conjunction with the Agricultural Stabilization and Conservation Service Program.

Several legislative changes would have to be made to permit orderly management of security reserves, including accumulation, strategic location, rotation, and timely release. Operational approaches would have to be conducted within limiting guides that would assure that the market would be insulated from the reserves stocks.

The Subcommittee has considered two alternative sets of management guides -- one tied to parity prices and the other to price increases in comparison with a recent historical period. This report includes only the parity approach.

Congress is likely to have a direct interest in any formula for the use of security reserves stocks in the market.

Previous efforts to hold the line on farm prices during emergencies have met strong objections from farm groups. For example, in 1941, in connection with stabilization legislation, the President reluctantly accepted 110 percent of parity as the general ceiling for farm commodities -- a price level up sharply from the late 1930's. He made it clear, however, that the government would continue to sell agricultural commodities in the normal conduct of its operations to minimize price increases. Shortly thereafter (August 1942) wheat was offered for feed at prices not lower than 85 percent of parity for corn. By March 1943 the sales prices for wheat was raised to "parity for corn" by Congressional action.

Price stabilization and export controls were focal points of Congressional action during the Korean hostilities.

If stabilization reserves were made available in full after only modest price increases, there could be a quick turnover, leaving the government with little or no reserves.

Yet, prices should not be required to rise to, say, 110 percent of parity before any of the reserves could be used. Under such a restriction extended, "Cuban-type" emergencies could come and go with security reserve stocks untouched.

The Subcommittee proposes that the Secretary of Agriculture be authorized to release specified parts of the reserves when the market price for a given commodity falls within the listed percentage of parity ranges:

<u>Parity Range</u>		<u>Release Guides</u>
90 to 95%	--	release additional 10% minimum adequate stocks
95 to 100%	--	release additional 10% minimum adequate stocks
100 to 105%	--	release additional 10% minimum adequate stocks
105 + %	--	release and management of all national security food, feed, and fiber reserves discretionary, Secretary of Agriculture.

Much must be left to the judgment of the Secretary of Agriculture and other responsible administrators as to the nature, gravity, and probable duration of a particular crisis-emergency situation.

Rotation to maintain desired qualities in food stocks can be fitted for the most part into the school lunch and direct distribution programs -- both domestic and foreign. Possibilities of a tie-in with food stamp distribution should be explored. Such operations should be at the discretion of the Secretary of Agriculture with only a legislative guide to the effect that rotation of particular kinds and qualities would be done in ways to minimize market disturbances.

In Europe, wholesalers are paid under government contract to hold large stocks of ready-to-eat types of food with specifications for rotation in and out of available market supplies to maintain quality. Conceivably this could be an important part in obtaining a desirable dispersion of a portion of security reserves in keeping with the population pattern.

The Department has proposed the establishment of rather small feed grain and wheat reserves. The latter would be limited to areas with processing facilities and, normally, relatively small stocks of wheat on hand.

The feed grain portion of the reserves would be located in the dairy, poultry, and egg producing areas that usually ship-in a substantial part of their requirements.

Most fibers can be stored for long periods with limited quality deterioration. Additionally, their location is of lesser strategic consequence than food stuffs during emergencies. It would appear that special locational provisions are not needed for most fibers under a security reserves program. Quality rotational operations for most major fibers could be fitted into existing domestic and export incentive and sales operations of commodity Credit Corporation with a minimum of difficulties.

Research Investigations

The potential significance of security food, feed, and fiber reserves in national policy and in farm policy prompts a strong recommendation by the Subcommittee that adequate funds be requested by the Department to pursue vigorously a series of interrelated investigations. These should include the task group studies recommended for determinations of minimum adequate and maximum justifiable levels of reserves with sustained offshore hostilities and massive nuclear attack. Perhaps these should be dealt with first by separate groups and then fitted together as a program.

Careful evaluations should be made of prospective costs and benefits of national security reserves and their operation in conjunction with production adjustments and price stabilization programs. Here, international trade implications, dollar balances, and the competitive position of U. S. farmers and processors must be included, considering both short-run and long-term periods. World food bank, international production agreements, trade restrictions, and tariffs would inevitably be a part of these studies.

The quality dimensions of reserves stocks, their preservation, storage, and management warrant a systematic series of tests and appraisal studies over a wide range of possibilities.

Lastly, continuous and intensive liaison should be maintained by the Department throughout these research investigations with administrative branches and with key members of the Congress.

Charles R. Sayre, Chairman

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